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MONEY MARKET IN SEPTEMBER

Large movements of funds, induced chiefly by Government receipts and expenditures, were the principal influence on the reserve position of member banks and on money market conditions during September. Continued, though reduced, net expenditures by the Government caused further shifts of funds from Government War Loan accounts to private deposit accounts and consequent increases in reserve requirements of member banks. Income tax collections, interest payments on the public debt, redemptions of unexchanged Treasury securities at the beginning and middle of the month, and other Government disbursements resulted in large-scale movements of reserves between different parts of the country and between individual banks.

War expenditures, including disbursements to war contractors, in the first 18 days of September were approximately 750 million dollars below the level of the corresponding period in August, but the decline in such expenditures was offset by interest payments and redemptions of maturing or called securities. In the first few days of September the Treasury redeemed 245 million dollars of certificates which had not been exchanged for the new certificates issued on September 1, and also 155 million dollars of Series A and C Savings notes which matured on that date. Failure of some holders of the certificates to exchange their certificates which matured on September 1 was attributed in part to a desire of some business organizations to increase their cash holdings in preparation for reconversion expenditures. As a result of these redemptions, together with other Government disbursements which, despite some reduction, were still running at a substantial rate, it was necessary for the Treasury to withdraw substantial amounts from War Loan deposit accounts in the first half of the month, prior to the heavy quarterly collection of income taxes. The disbursement of these funds caused a rapid rise in business and personal deposit accounts and an accompanying increase in the required reserves of member banks amounting to about 400 million dollars.

Temporary relief from the pressure on member bank reserve positions was afforded on and immediately after September 15, when the Treasury disbursed about 550 million dollars of interest on the public debt and redeemed a sizable amount of unexchanged 2¾ per cent Treasury bonds which were called for redemption. These disbursements exceeded income tax and other collections and resulted in some reduction in the Treasury balance with the Federal Reserve Banks and a consequent increase in member bank reserves.

The situation quickly reversed itself, however, despite the fact that, because of recent legislation enabling corporations to apply postwar excess profits tax credits against instalments of 1944 tax liabilities not previously paid in 1945, the Treasury's tax receipts in September were considerably less—perhaps as much as 400 million dollars—than they were in June. Current Government expenditures were also substantially reduced and tax collections ran well ahead of disbursements from September 19 to 26. This excess of income, together with small calls on War Loan depositaries on September 24 and 25, resulted in a rise in Treasury balances in the Reserve Banks to an unusually high level—about 960 million dollars. In view of this large balance and continued tax collections in substantial amounts, the Treasury was able to suspend calls on War Loan depositaries for the balance of the month. Meanwhile, however, the net cash receipts of the Treasury caused renewed pressure on the reserves of the banks.

To some extent, this pressure on bank reserves was mitigated by a slackening of public demand for currency. In the two weeks which included the heaviest income tax collections there was a small net reduction in the amount of currency outstanding, doubtless reflecting in part the use of currency to meet income tax payments, and in addition there was the usual seasonal reduction in the demand for currency following a sizable expansion in the early part of the month. For the four weeks ended September 26 the increase in currency outstanding was only 129 million dollars, compared with increases in the two preceding four-week periods of 470 million dollars and 296 million, respectively.

As a result of the combined effect of increased reserve requirements, the moderate rise in currency circulation, and the accumulation of unusually large Treasury balances in the Reserve Banks after the middle of the month, there was a more or less persistent demand by member banks throughout the month for Federal Reserve credit to enable them to maintain their reserves at the required levels. In view of the rapid shifting of funds, however, the demand came from

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individual banks and from different parts of the .ry from time to time. There was a rather steady excess offerings, in the market, of Treasury certificates and short term notes which came largely from banks in need of reserves, although some offerings were reported to have come from corporations seeking to increase their cash resources. The Federal Reserve Banks, through the System Open Market Account, made purchases of such securities totaling over 700 million dollars in the four weeks ended September 26, which served the combined purpose of maintaining equilibrium in the market and of supplying member banks with needed reserves.

Member bank borrowings from the Reserve Banks, and sales of Treasury bills to the Reserve Banks under repurchase options and subsequent repurchases of such bills, fluctuated widely in response to rapid changes in the reserve positions of individual banks and of banks in different areas. For the four-week period as a whole, member bank indebtedness at the Reserve Banks showed a net reduction of 20 million dollars. It appears that some banks have been more disposed in recent weeks to sell short term securities, such as Treasury certificates, in the market than to borrow from the Reserve Banks when they were in need of additional reserves. On the other hand, Reserve Bank holdings of Treasury bills (the sale of which by member banks under repurchase option is more in the nature of a borrowing operation than of an open market operation) showed a net increase of 81 million dollars.

In general, fluctuations in the reserve positions of New York City member banks were in inverse relationship to the fluctuations in reserve positions of member banks in other parts of the country. During the early part of the month, there was an outflow of funds from New York to other areas, probably reflecting in part corporation withdrawals of funds from New York balances for the purpose of meeting income tax payments in other localities, and in part sales of Government securities in the New York market. Around the middle of the month, however, this outflow of funds was more than offset by Treasury disbursements in New York for the redemption of Government securities and for interest payments on the public debt. These disbursements in New York were met by Treasury transfers of funds from other parts of the country, which had the effect of tightening the reserve position of banks elsewhere and easing the reserve positions of New York City banks.

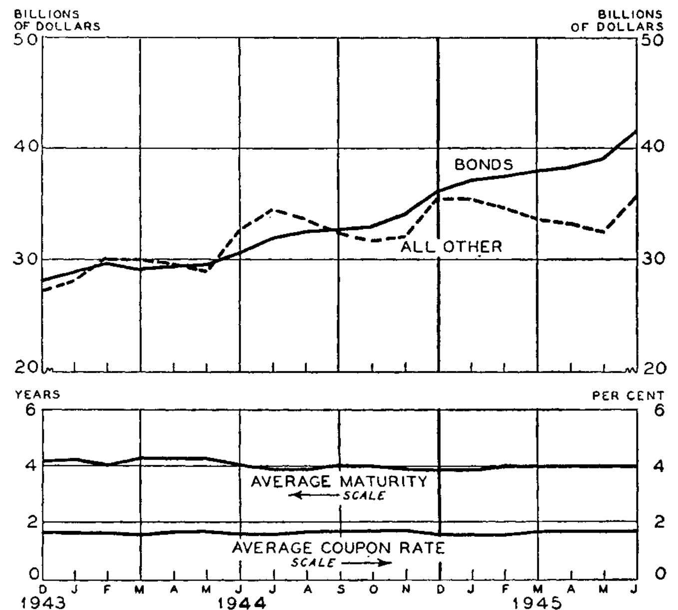
Government Security Portfolios of the Commercial Banks

The refunding on September 1 of the 2¾ per cent Treasury bonds of September 15, 1945-47 with a ⅞ per cent certificate during the month brought the first substantial decline in bank bond portfolios since March 1944 when another refunding operation brought about a decline of similar proportions. In addition, there was some selling of Treasury bonds by a few large New York City banks during September, reportedly for the purpose of shifting to securities of shorter maturities.

As illustrated in the upper panel of the accompanying chart, marketable Treasury bond holdings of commercial banks which report monthly to the Treasury (comprising institutions owning 95 per cent of all commercial bank held Government obligations) increased 13.4 billion dollars between the end of 1943 and June 30, 1945 (the latest date available), compared with an increase of 8.4 billion for all other types of marketable Government obligations. (Part of these gains are attributable to the increase in the number of reporting banks in this period.)

The substantial growth of bank holdings of Government securities and bonds in particular has taken place in spite of the fact that no direct offerings have been made to the banks since the Third War Loan (except for limited amounts related to the investment of time deposits) and that the Treasury, through restrictions on the eligibility of Government securities for bank investment and through refunding operations, has limited the types of securities available to the banks. The expansion of bank holdings of Government obligations, therefore, was effected through open market purchases. The most persistent purchases were of intermediate term, fully taxable bonds—the longest and highest yielding Treasury securities the banks are eligible to hold in more than very

Volume, Average Maturity, and Average Coupon Rate of Government Securities Held by Commercial Banks*



* Public marketable securities at par values.

Source: *Treasury Bulletin.* Average maturity and coupon rate computed by Federal Reserve Bank of New York.

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limited amounts. The banks also acquired large amounts of certificates and other short term Treasury securities, especially in periods just preceding and during War Loan drives, but found it necessary to dispose of substantial amounts of such securities in subsequent periods in order to maintain their reserves at the required levels. In addition, there were indications at times of some switching from short term securities into bonds.

As a result, the general impression has arisen that the average maturity of bank portfolios of Government obligations has been lengthened considerably. Actually, in spite of the increase in the proportion of bonds held and the substantial reduction of bill holdings, there has been no lengthening of the average maturity of bank portfolios of Government securities (as shown in the lower panel of the chart). On the average, Government securities held by the banks had about four years to run in most of the months between the end of 1943 and the middle of 1945. Apparently the purchases of medium term Treasury bonds only made up for the gradual decline in the average period to maturity of previous holdings, brought about by the passage of time. There were some slight temporary declines in the average maturity during War Loan drives when the banks purchased Treasury bills and other short-dated securities, but these were followed by increases in the months between drives when banks in need of reserves sold bills to the Federal Reserve Banks and other short term securities in the market.

Not only was there little change in the average maturity of bank holdings of public marketable securities, but the average coupon rate likewise remained practically stationary. The average rate of interest paid on bank held Government securities fluctuated in a narrow range from a high of 1.68 per cent to a low of 1.60 per cent between the end of 1943 and the middle of 1945 (also indicated in the lower panel of the chart). Apparently shifts from bills into certificates and purchases of bonds just about offset the exchange of maturing or called, higher coupon issues for low interest-bearing obligations. Consequently the net cost to the Treasury per dollar of bank held debt remained unchanged. The average yield to the banks is, of course, below the interest cost to the Treasury, inasmuch as large amounts of the Government obligations held by the banks have been acquired in the open market at prices well above par, and other available data indicate that the average yield to the banks has been declining gradually.

BRITISH FINANCIAL AGREEMENTS WITH DENMARK AND THE NETHERLANDS

Great Britain's network of financial agreements with Western Europe was extended on August 16 by an agreement with Denmark and on September 7 by an agreement with the Netherlands. Both arrangements fall within the framework already established by the British financial agreements with other countries of Western Europe and the Near and Middle East, which were examined in some detail in the August and September issues of this *Review;* accordingly, only the distinctive features of the new agreements will be pointed out in this article.

The Anglo-Danish agreement follows closely the pattern of the Anglo-Swedish agreement. No limits are formally placed upon the balance which each government is prepared to hold in the currency of the other country; any net liability may be liquidated in gold by the debtor country, although there is no undertaking to provide gold against an accumulated debit balance; and it is anticipated that in the initial period Denmark will accumulate sterling on balance.

On the other hand, the Anglo-Dutch agreement is closely similar to the monetary agreement which Great Britain concluded in October 1944 with Belgium. Provision is made for reciprocal overdraft facilities up to 5 million pounds sterling or its equivalent, 53,450,000 guilders; there is a clause stipulating that, in addition to this overdraft limit, the Dutch sterling balances outstanding at the time of the conclusion of the agreement are available for the payment of purchases in the United Kingdom; and any debit balance in excess of these limits is to be settled by the debtor in gold.

Both agreements cover the sterling area as it may be redefined from time to time. The Netherlands monetary area comprises Holland, the Netherlands East Indies, and the Netherlands West Indies. The Danish currency area consists of Denmark and Greenland; pending further negotiations, the Faroe Islands, which had been part of the sterling area during the war, will not be reincluded in the Danish monetary area.

The duration of the Anglo-Danish agreement is five years, that of the Anglo-Dutch agreement three years; both may, however, be terminated by either party upon three months' notice. There is also the usual clause that in the event the parties join in a future general international monetary pact, the terms of the agreement shall be reviewed with a view to making any amendments that may be required.

An important dissimilarity of these latest agreements to the earlier ones is in the basis of exchange rate determination. While, in the previous agreements with Western Europe, the existing exchange rates were simply reaffirmed, either at the level determined in connection with pre-liberation currency arrangements (Belgium, France, Netherlands) or at the level prevailing before the war (Sweden), the exchange rate of the Danish krone in terms of the pound sterling has been fixed neither at the prewar level (22.40 kroner) nor at the rate allowed for the conversion of sterling by British troops in Denmark (24 kroner), but at the nominal rate (19.34 kroner per pound) corresponding to the krone-reichsmark rate which prevailed in Denmark under the German occupation, after the appreciation of the krone in January 1942; and on

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this exchange basis initial prices have been fixed for British purchases of Danish bacon and dairy produce.

The exchange rate basis chosen for the Anglo-Dutch agreement differs in its own way from that used in earlier British agreements. Unlike the Belgo-British and Franco-British agreements, under which the rates of exchange in terms of the pound sterling are identical for the currency of the mother country and the currencies of its colonies and dependencies, the Anglo-Dutch agreement prolongs the present duality of exchange values for the metropolitan guilder and the West and East Indian guilders. After the invasion of Holland by Germany, the Dutch Government-in-exile concluded two financial agreements with Great Britain, one on June 14, 1940 on behalf of the Netherlands East Indies, and another on June 25, 1940 on behalf of the Netherlands West Indies. Under these agreements, the exchange rates of the two Indian guilders were fixed at 7.6 to the pound (against the former 8.7), a rate which remained in force in the Netherlands West Indies throughout the war. The new Anglo-Dutch agreement provides for the abrogation of the West Indian agreement of June 25, 1940, but for the time being transactions with Curacao and Surinam will continue to be governed by the rate of 7.6 guilders to the pound sterling. On the other hand, the agreement of June 14, 1940, concluded on behalf of the Dutch East Indies, remains in force, and the rate of 7.6 to the pound was reestablished after the liberation of the Indies. The value of the metropolitan guilder is kept unchanged at 10.691 to the pound, to which it had been reduced prior to the liberation of Holland.

Like the Anglo-Swedish agreement, the Anglo-Danish agreement may be of special benefit to Great Britain in that, during the initial period, sterling balances accruing from Danish exports to England will be carried until British exports of manufactured goods can be expanded to liquidate the debt. On the other hand, the new agreement with Holland, like the arrangements with Belgium and France, will not by itself expand the volume of trade between the parties. Trade between the metropolitan British and Dutch territories is now limited chiefly by the fact that the export potentials of England and the Netherlands are exceedingly small at present. Accordingly, the trade facilities opened by the Anglo-Dutch agreement are likely to be confined in the near future to the Netherlands' purchases in parts of the sterling area which are in a position to export such products as are not obtainable in the Dutch overseas territories, and vice versa.

The Anglo-Danish and Anglo-Dutch agreements would seem practically to complete the program of British bilateral agreements. When negotiations with Norway and Portugal, reportedly under way, are concluded, the whole of Western and Northern Europe, with the exception of Switzerland, will be part of the new structure. Moreover, not only metropolitan Holland, but also the Dutch East Indies, just liberated, and the Dutch West Indies, whose link with sterling was to have been severed six months after the end of the war, are covered by the new Anglo-Dutch agreement. As a result, the French franc area, the Belgian franc area, the Dutch guilder area, and the Danish krone area are at present connected by bilateral agreements with the sterling area; the agreement with Portugal which is reportedly in course of negotiation will presumably extend to the Portuguese colonies. Thus a large part of the world has been covered by the network of bilateral agreements between Great Britain and Western Europe.

It is true that the Anglo-Danish and Anglo-Dutch agreements, like all those which Great Britain concluded earlier with other Western European countries, contain a multilateral clause providing that each party will endeavor to restore the multilateral convertibility of its currency, "as opportunity offers." If these multilateral clauses, which are of such potential value for the future pattern of international monetary relations, are not to remain a dead letter, appropriate international, as well as American action, will have to be taken to create world economic conditions which will make possible the abandonment of bilateral and other restrictive exchange practices. The current American negotiations with the United Kingdom and other Western European countries regarding the forms and modalities of possible future American financial aid offer another opportunity to review the broader problem, and to help devise ways and means of ensuring the eventual effective application of the multilateral clauses which are contained in these British monetary agreements.

BELGIAN AND FRENCH MONETARY POLICIES

On the threshold of the postwar era, Belgium and France are at grips with the problems of economic and monetary reconstruction bequeathed them by five years of war devastation and of the draining of their material and human resources by the enemy. The purpose of this factual survey is to outline the currency conditions prevailing in Belgium and in France at the close of their first year of restored freedom.

On the eve of liberation, the fiscal and monetary positions of Belgium and France showed a considerable degree of similarity. In both countries, up to the middle of 1944, the proportion of the national government's expenditures raised by current revenue was almost identical—about 30 per cent. This was a very low proportion, compared with 41 per cent in the Netherlands and 57 per cent in Denmark, or with 48 per cent in the United Kingdom and 41 per cent in the United States. From the standpoint of controlling inflation, taxation is the most effective instrument for curtailing excess purchasing power; the fact that neither Belgium nor France covered more than a third of total wartime expenditure by taxation and other current revenue had, therefore, an important bearing on their immediate situation after the liberation. It should be borne in mind, however, that the greater part of

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government expenditures in Belgium and France during the war period consisted of the extraordinary burdens cast upon those countries in the form of occupation army costs and the financing of large net exports to Germany. Of the aggregate government expenditures, Germany absorbed in these ways some 59 per cent in Belgium and 49 per cent in France.

As a result of large-scale deficit financing, domestic debt of the national government increased by approximately 250 per cent in both Belgium and France, and the proportion of total government deficit covered by expansion of bank credit was 70 per cent in Belgium and 62 per cent in France. At the time of liberation, four fifths of the total assets of the National Bank of Belgium (including those of the Nazi-conceived "Bank of Issue in Brussels") and of the Bank of France consisted of claims on the government (plus, in the case of the "Bank of Issue in Brussels," claims on Germany). At that time, moreover, some two thirds of the assets of the Belgian commercial banks and four fifths of the assets of the large French commercial banks consisted of government securities.

Against this expansion in banking assets, the note circulation increased in both countries by 350 to 400 per cent, and commercial bank sight deposits by about 170 per cent. Liquid assets in the form of notes, current deposits, and savings deposits held by the French public at the time of liberation were approximately 1,000 billion francs, as compared with 264 billion francs in 1939; similar holdings in Belgium increased to 186 billion francs in August 1944 from 64 billion francs in May 1940. In addition, the public and the banks in both countries at the time of liberation held large amounts of government paper convertible into money at short notice; in France Treasury bills amounted to 600 billion francs, against 60 billion francs before the war.

In this essentially similar situation, Belgium and France pursued widely divergent policies. In Belgium, a government decree issued on October 7, 1944—only a month after the return of the government to Brussels—provided for an immediate over-all contraction of currency. The existing notes ceased to be legal tender, and new notes were issued in exchange for the old on a franc-to-franc basis, but only to a maximum of 2,000 francs per person. The balance of the old notes was credited to the holders only in blocked accounts, and all existing bank deposits were also blocked, save for 10 per cent or the amount which had stood to the credit of the account on May 9, 1940, whichever was the greater. (In the case of business enterprises, 1,000 francs per employee was exempt from blocking.) The blocked currency accounts and blocked portions of deposits were in turn divided into a "definitely unavailable" part of 60 per cent and a "temporarily unavailable" part of 40 per cent. The "temporarily unavailable" notes and deposits were to be released gradually as imports and economic activity revived (although to alleviate hardships minor withdrawals were authorized, under certain conditions, in November 1944 and again in June 1945). By October 1944, the aggregate volume of "free" money in the form of bank notes, deposits, and savings accounts was reduced as a result of these measures from 186 billion francs to 72 billion francs, while the note circulation alone was contracted from 101 billion francs to 25 billion francs.

In France, on the other hand, the reduction in the note circulation was effected gradually, and there was no blocking of notes or of deposits with commercial and savings banks. A 3 per cent National Liberation Loan was issued early in November 1944; a new type of medium term government bonds (Liberation Bonds) was devised in April 1945 to absorb the savings of individuals; and an exchange of old notes for new and an exchange or stamping of Treasury bills and short term Treasury bonds was effected in June 1945. By these methods the note circulation was contracted from the all-time peak of 656 billion francs in October 1944 to 562 billion francs in January 1945, or by somewhat more than the cash proceeds of the Liberation Loan, and from 589 billion francs in May 1945 to below 400 billion francs early in July. The last mentioned reduction in the note circulation represented currency which holders deposited in bank accounts in preference to exchanging it for new notes, currency which had been acquired by Nazi collaborationists or for tax evasion or other illicit purposes and therefore not turned in, and currency which had been lost or destroyed.

The net result of the measures enacted in both countries was a substantial reduction in the inflation potential, but inflationary pressures reappeared almost immediately. In Belgium, the aggregate amount of "free" money increased from 72 billion francs in October 1944 to 107 billion in April 1945, and the note circulation alone expanded from 25 billion in October 1944 to 62 billion in August 1945. Similarly in France, the note circulation in May 1945, prior to the exchange of notes, had increased to 589 billion francs from 562 billion francs in January; and after the completion of the note exchange, it rose by approximately 50 billion francs to 444 billion francs on August 2.

The expansion in the note circulation reflects partly the unsettled budget position of Belgium and France, and partly the requirements of the Allied armed forces. In Belgium, up to August 30, 1945, the National Bank made advances totaling 23 billion francs on behalf of the Allied forces and Mutual Aid, as against 7 billion francs advanced to the Belgian Government for its own requirements. In France, provisional advances by the Bank of France to the government, which had been reduced as a result of the Liberation Loan from 55 billion francs to only 900 million francs in January 1945, rose again to 31 billion francs in May; they were, however, entirely repaid in June, and at the beginning of August the Treasury's deposits with the Bank of France reached 102 billion francs, an unprecedented amount.

Officially controlled prices rose during the war much less than the volume of money—by 183 per cent in France and by approximately 100 per cent in Belgium, up to the time

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of liberation. During the same period, hourly wage rates are reported to have increased in both countries by 45 per cent. On the other hand, the post-liberation currency contraction did not result in any reduction of prices; if anything, officially quoted prices rose between the time of liberation and the German surrender both in Belgium and in France. Wage rates have been permitted to increase since liberation by 60 per cent in Belgium and by 40 per cent in France, but, reportedly, these percentages of increase have been frequently exceeded.

Industrial share quotations, which in both countries had advanced much more than the official price indices, were much lower in Belgium than in France at the time of liberation, when the Belgian index figure was 379 and the French 590 (taking January—June 1939 as 100 in both cases). However, stock prices in France subsequently have fallen sharply (to 372 for industrial shares in May).

As part of their reform programs, Belgium and France devised, both for fiscal and political reasons, levies on capital and taxes on wartime profits. In France, a law imposing such extraordinary taxation was promulgated in August 1945; in Belgium, the government project is still pending before parliament. A detailed description of the French "National Solidarity Tax" cannot be given here, but it consists of (a) a capital levy payable in four instalments during 1946-49 at rates ranging from 3 per cent on capital holdings up to 500,000 francs to 20 per cent on holdings over 300 million francs (after an exemption of 200,000 francs per person and further exemptions of 100,000, 200,000, and 400,000 francs for a first, second, and third child, respectively); and (b) an "enrichment levy" to be charged on the difference between wealth possessed by the taxpayer on January 1, 1940, and on June 4, 1945, the basic exemption being 50,000 francs and the rates ranging from 5 per cent on 150,000 francs to 100 per cent on amounts above 5 million francs.

By way of summary, one may say that, in both Belgium and France, substantial reductions in the war-expanded currencies have been effected, that the rate of increase in central bank advances to the government and in the resulting supply of money has slowed down since the German surrender, that the degree of control of the currency authorities over their respective monetary and banking systems has been strengthened, and that some of the conditions preliminary to more comprehensive reconstruction policies have thus been fulfilled. Now that a measure of currency reform has been achieved, it may be expected that appropriate action will be taken to implement such fiscal and economic policies as may be conducive to an orderly transition to a postwar economy. Prompt and efficient action in this respect appears all the more important because the inflation which in many European countries originated in the war of 1914-18, and the resulting disintegration of the economic and social fabric of those countries, assumed its most serious proportions, not during the war, but after it.

Indexes of Business

Index	1944	1945		
	August	June	July	August
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	232	220	211	188*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	202	205	202	193*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	224	235	232*p*	
Sales of all retail stores*, 1935-39 = 100‡ (*Department of Commerce*)	181	183	191*p*	
Factory employment				
United States, 1939 = 100§ (*Bureau of Labor Statistics*)	168	151	146	142*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	146	134	128	128*p*
Factory payrolls				
United States, 1939 = 100§ (*Bureau of Labor Statistics*)	335	303	287*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	279	263	249	232*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	234	245	242*p*	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	165	170	170*p*	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	126	129	129	129*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	83	106	94	87
Outside New York City	78	92	76	72

* Adjusted for seasonal variation. *p* Preliminary.
‡ Series revised beginning January 1944.
§ Series revised beginning January 1943.

RECONVERSION IN THE SECOND DISTRICT

The sudden end of the war in the Pacific resulted in lay-offs of war workers estimated to total 450,000 in the Second Federal Reserve District, or close to 8 per cent of total non-agricultural employment, but, on the whole, has not caused any widespread dislocation. In individual centers, such as Buffalo, Paterson, and Bridgeport, the closing of production facilities built during the emergency has released a particularly large proportion of the workers employed, while in New York City only about 4 per cent of all workers employed on V-J Day have been laid off. In most major production areas the number of job seekers exceeds the number of openings available in peacetime industries, including the service and distributive fields. One of the abnormalities of the present picture is, however, that both the number of job seekers and the number of openings are large.

In the principal peacetime industries of the District, the clothing, textile, and food industries, and in some branches of other important industries, such as the chemical and electrical machinery industries, the undertaking of contracts for the Armed Forces involved little, if any, conversion of production facilities, and some of these industries had hardly any technical reconversion problems after cancellation of contracts. In others, a gradual adjustment was in progress after substantial cutbacks following the end of the European war and in anticipation of further reductions. In some industries of the District, the main problem before and after V-J Day has been scarcity of labor and of raw materials, rather than bottlenecks in physical reconversion.

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The sharp cutbacks in the weeks immediately following final victory affected the District primarily through the termination of major aircraft contracts. Although employment in the aircraft industry had declined from its wartime peak of over 325,000 in December 1943 to about 210,000 on V-J Day, this industry was still the most important war industry of the District. Some large Government aircraft factories, such as Curtiss-Wright in Buffalo and Wright Aeronautical in Wood Ridge, New Jersey, released nearly all of their workers; others face an uncertain future when the current contracts, which have permitted them to continue operations on a reduced scale, are completed. Several aircraft companies, domiciled in this District before the war, have announced plans for postwar operations, which, of course, will offer a much smaller number of jobs than during the war.

The shipbuilding industry has been affected less than in other parts of the country, mainly because in this District naval construction and ship repair and alteration have predominated, rather than large-scale construction of Liberty and, later, Victory cargo ships. No large new shipyards were built in this District during the war, although a few existing yards, among which the Brooklyn Navy Yard is the most important, were greatly expanded. Employment in New York State's shipbuilding industry on V-J Day was only slightly below the wartime peak level, and in the New Jersey part of the District it was still relatively large. Although in the Newark area shipbuilding employment has declined substantially since V-J Day, the level of activity of the Brooklyn Navy Yard, which in the last few years accounted for about half of total shipbuilding employment in New York State, remains very high.

Relatively few publicly financed new ammunition and explosives plants (which have experienced the sharpest cuts since the termination of hostilities) were built in this District. On the whole the fact that the contribution of this District to the war effort was based largely on its existing manufacturing capacity rather than on new facilities is an important factor in minimizing the immediate effects of the sudden termination of war production.

The maintenance of a high level of activity at the Port of New York contributes towards cushioning the effect of the end of the war on New York City. During the war the Port of New York was the country's main port of embarkation and topped all other ports in the volume of war cargo handled. It has now become the main funnel for the return of soldiers and equipment from the European theater and also from some other parts of the world where our forces have been deployed. At the same time the Port of New York handles a considerable volume of shipments of supplies for our occupation forces and for relief and rehabilitation in foreign countries. The continuing large volume of port operations, and the effects on trade and the service industries of the great numbers of transients who continue to crowd the City, cannot fail to exert a favorable influence on employment. Employment in various service and distributive industries which provide the largest part of the payroll in New York City remains very high and has not been affected by the end of the war; in fact, such industries continue in the market for additional help.

In the District as a whole, and in particular in New York City, the level of employment in the months to come will depend only partly on the success of the physical reconversion in this region and to a considerable extent on the progress of the reconversion in the country as a whole. In this District, as elsewhere, the first wave of lay-offs has been rapidly subsiding, and has been partly offset by retirement from the labor force of war emergency workers. The number of such workers still employed is now greatly reduced and future cutbacks may result in a larger number of job seekers relative to the number laid off than in the first weeks after V-J Day. On the other hand, job openings which could not be filled as long as the demand of war industries for labor was pressing and persistent have been available for those willing to shift without delay to the generally lower paying peacetime jobs.

Some of the favorable factors which have so far cushioned the effect of the sudden end of the war in this District may, however, be only temporary. A sharp decline in shipbuilding employment may be expected after completion of Navy vessels now under construction and of the numerous ship repair and transformation jobs. It is also questionable whether, even if world trade reaches a considerable volume, the Port of New York can be expected to operate on the present record level after the last American soldier not needed for occupational duties has been brought back and the shipment of war and relief supplies ceases. Finally, by far the largest part of the soldiers and sailors to be demobilized has yet to reach separation centers, and many of those already released are not yet actively seeking employment.

Although the first phase of reconversion has apparently met with fewer difficulties and produced less unemployment than expected, here as elsewhere, it is too early to pass final judgment. It is becoming increasingly clear that what before V-E Day was rather vaguely termed "reconversion" really consists of three distinct but related processes: (1) physical reconversion to their original use of those facilities which have been converted to war production; (2) adaptation, in so far as possible, to peacetime operation of new facilities built to meet specific war needs; (3) adjustment of facilities to meet expected enlarged demands and to meet new competitive conditions.

This last point may need particular emphasis. The economic process is one of continuous adjustments guided by changing price and cost relationships. During the war years, shifts in population, some of them permanent and others temporary, technical developments, new materials and products, changes in relative labor costs, and many other factors

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have created many new situations. All these new factors will have to be scrutinized carefully by businessmen. Temporary influences must be distinguished from lasting changes. Wartime conditions in industry and trade have obscured some of the underlying shifts, and the net effect of new developments on the competitive position of various industries and regions will not become clear immediately after the completion of physical reconversion. Only after a certain time will it be possible to judge what District industries have been strengthened by recent trends and what, if any, have been weakened.

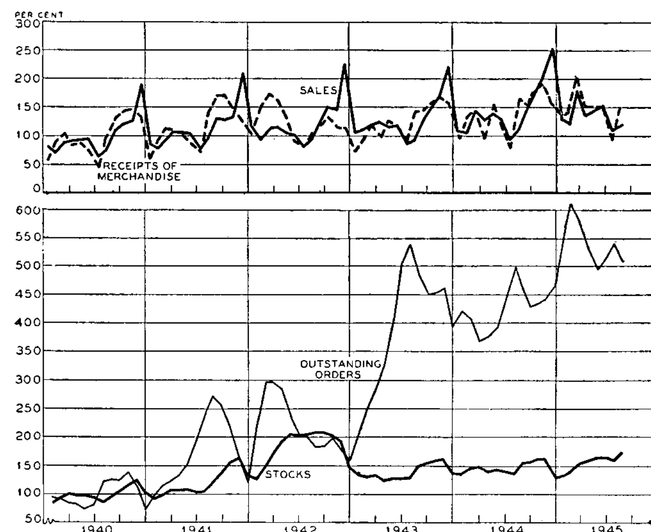
It has been pointed out that the real test of economic statesmanship will come not during, but after, the period of reconversion. If the victorious conclusion of the biggest military conflict in human history is to be followed by a period of prosperity and domestic peace, then the job of reconversion must transform itself into a process of gradual expansion of our economy to absorb all available human and material resources, and thus to achieve a standard of living far above that prevailing in this country before the outbreak of the war.

DEPARTMENT STORE TRADE

The volume of department store sales has not yet indicated any decline in consumer demand in this District since the Japanese capitulation. After allowance for seasonal factors, department store sales last month approximately equaled those in August and were close to the average for the year to date. Sales are now running about 10 per cent above the 1944 average. Totals for the complete year, however, will depend upon the dollar volume for October through December, which normally accounts for about one third of the year's total.

Although department stores so far this year have sold a record dollar volume of merchandise, they have also accumulated large inventories. The accompanying chart shows that since the beginning of this year receipts of merchandise have substantially exceeded sales, and stocks are the largest since the close of 1942. How much of this increase represents a larger physical volume and how much reflects price increases and shifts toward higher priced lines, is unknown. During the past few months the dollar amount of new orders placed by the department stores has not equaled the merchandise received, and outstanding orders have declined somewhat. However, merchandise ordered but not yet delivered approximately equals the dollar amount of stock on hand. During 1942 the value of outstanding orders amounted to only one third of the merchandise on hand. In terms of August sales, outstanding orders plus stock on hand at the close of the month represented over seven months' supply, approximately the same ratio that prevailed in the same month of 1942.

Indexes of Sales, Receipts of Merchandise, Stocks, and Outstanding Orders of Department Stores, Second Federal Reserve District (1940 monthly average=100 per cent)



Source: Compiled by Federal Reserve Bank of New York from returns from a limited number of stores. Data for stocks and orders are for end of month. The receipts series is derived from sales and changes in stocks, and represents approximately the new merchandise received during each month.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand
	August 1945	Jan. through August 1945	Aug. 31, 1945
Department stores, Second District	+9	+14	+7
New York City	+9	+14	+7
Northern New Jersey	+8	+14	+15
Newark	+10	+15	+16
Westchester and Fairfield Counties	+5	+9	+10
Bridgeport	—4	+4	+2
Lower Hudson River Valley	+14	+16	+1
Poughkeepsie	+15	+16	—2
Upper Hudson River Valley	+18	+16	+6
Albany	+29	+21	+13
Schenectady	+7	+12	—1
Central New York State	+10	+12	+3
Mohawk River Valley	+4	+5	—8
Utica	—1	+5	—9
Syracuse	+13	+16	+10
Northern New York State	+23	+19	—
Southern New York State	+10	+14	—8
Binghamton	+8	+17	—4
Elmira	+20	+10	—1
Western New York State	+6	+10	+5
Buffalo	+4	+8	+4
Niagara Falls	+7	+10	—18
Rochester	+8	+13	+12
Apparel stores (chiefly New York City)	+23	+23	+8

Indexes of Department Store Sales and Stocks Second Federal Reserve District

(1935-39 average=100 per cent)

Item	1944	1945		
	August	June	July	August
Sales (average daily), unadjusted	111*r*	156	118	120
Sales (average daily), seasonally adjusted	152*r*	169	176	165
Stocks, unadjusted	161	165	161	174
Stocks, seasonally adjusted	166	172	175	178

r Revised.

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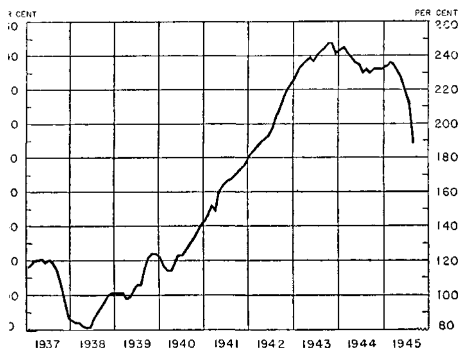
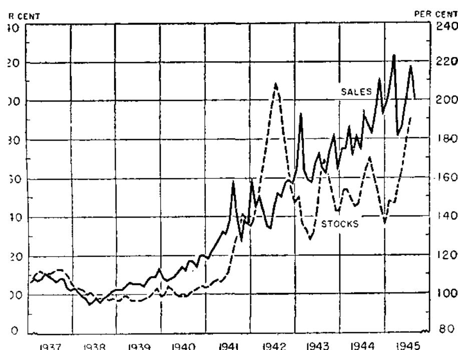
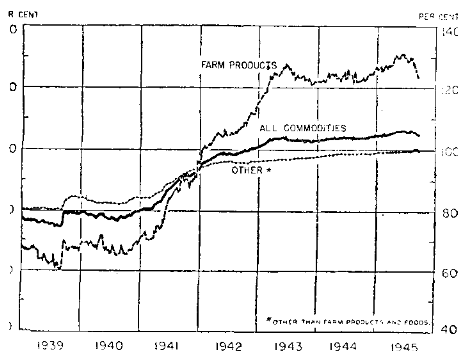


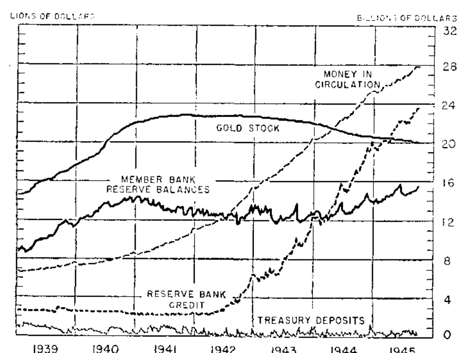
dex of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



dexes of Wholesale Prices Compiled by Bureau f Labor Statistics (1926 average=100 per cent; latest figures are for week ended September 15)



ember Bank Reserves and Related Items (Latest figures are for September 19)

General Business and Financial Conditions

(Summarized by the Board of Governors of the Federal Reserve System)

PRODUCTION and employment at factories dropped sharply after the middle of August when most military contracts were cancelled. Activity in most other lines was maintained and the value of retail sales continued above last year's high levels.

Industrial Production

Industrial production declined 11 per cent in August, reflecting primarily the sharp curtailment of activity in aircraft, shipbuilding, and ordnance plants in the last half of the month, and the Board's seasonally adjusted index was 188 per cent of the 1935-39 average as compared with 211 in July.

The largest part of the decline was in the machinery and transportation equipment industries, where activity during the month averaged about 20 per cent below July. Output of steel and of nonferrous metal products likewise declined with the sudden elimination of almost all military demands. In September steel output increased with the receipt of orders in large volume from the automobile and other steel-consuming industries now rapidly converting to civilian production. Output of lumber and stone, clay and glass products declined slightly in August.

Production of nondurable goods in August was also below the July level, reflecting primarily military contract cancellations affecting output in the chemicals and rubber products industries. Cattle slaughter at Federally inspected plants rose sharply in August and the first two weeks of September. Output of shoes and newspaper publishing activity also increased in August. Output of textiles, most manufactured food products, and other nondurable goods showed little change or declined slightly. Immediately after Japan's capitulation, rationing was ended for gasoline, fuel oil, and canned fruits and vegetables. Increased supplies of dairy and meat products and tobacco products were also made available for civilians.

Minerals production declined somewhat in August reflecting chiefly a 4 per cent decrease in coal production. In the first part of September output of bituminous coal advanced. Crude petroleum output was maintained in August at the record July level, but owing to the substantial decline in military demand for petroleum products, the production rate in the first half of September was about 8 per cent below August.

Awards for the construction of privately-owned factories and commercial buildings continued to increase sharply in August. Contracts for private residential construction were awarded at about the same rate as in June and July, which was about twice the value of awards in the summer of 1944.

Distribution

Department store sales in August were smaller than in July on a seasonally adjusted basis but about 6 per cent larger than in August last year. In the first half of August sales were about 20 per cent larger than a year ago. In the last half of the month and the early part of September, following Japan's surrender, sales slackened and were little changed from last year's level. Sales in the two weeks ended September 22, however, rose sharply and were 11 per cent larger than in the corresponding period a year ago.

Railroad shipments of revenue freight in the last two weeks of August and the early part of September were in almost as large a volume as in the period prior to the week of Japanese surrender and only 7 per cent smaller than during the same period last year. In the middle of September shipments of most classes of freight were as large or larger than a year ago; loadings, however, of miscellaneous manufactured products which include munitions were at a reduced level.

Commodity Prices

Prices of agricultural commodities declined from the early part of August to the early part of September but since that time have increased somewhat.

Maximum prices of petroleum products have been reduced somewhat since the early part of August, owing to lower transportation charges, while maximum prices of cotton goods, building materials, and various other industrial commodities have been increased.

Agriculture

Crop prospects continued to improve during August and total production is expected to equal the record harvests of 1942 and 1944. Cotton production, however, is forecast at only 10 million bales, which is about 2 million smaller than last year's crop and the average for the past 10 years. Total carryover of raw cotton in this country on August 1 was about 11 million bales, slightly more than in the two previous seasons.

Bank Credit

In the first month of peace, Federal Government expenditures though reduced were still well in excess of receipts, and war loan balances at commercial banks were accordingly reduced. Adjusted demand and time deposits of weekly reporting banks increased by 1.8 billion dollars during the five weeks ended September 19, while war loan balances at these same banks declined by 3.4 billion. Thus, as in other periods between Treasury financing drives, Treasury expenditures tended to increase deposits of business and individuals at small banks more than at large ones.

The currency outflow continued and totaled 425 million dollars during the five-week period, but it was somewhat below the outflow of last year for the comparable period. Time deposit expansion continued as rapidly as in recent months.

Loans for purchasing and carrying Government securities at reporting banks were further liquidated during the five weeks by 470 million dollars and, in addition, reporting banks reduced holdings of U. S. Government securities by 1.3 billion dollars to meet the increase in reserve requirements and net deposit declines. Smaller banks appear to have been purchasing Government securities during the period.

Reserve funds during the five-week period were supplied by an increase of 1.1 billion dollars in Reserve Bank holdings of Government securities and by a small increase in member banks borrowings from the Reserve Banks. This increase met the currency outflow and increased average reserve balances by close to 550 million dollars; this was about as much as the increase in required reserves, and excess reserves remained near one billion dollars.

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